Liberty Tax, Inc.
Form 10-Q
September 03, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended July 31, 2015

OR

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission File Number 001-35588

Liberty Tax, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-3561876
(State of incorporation)	(IRS employer identification no.)

1716 Corporate Landing Parkway
Virginia Beach, Virginia 23454
(Address of principal executive offices)
(757) 493-8855
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The number of shares outstanding of the registrant’s Class A common stock as of August 26, 2015 was 11,878,347 shares.

The number of shares outstanding of the registrant's Class B common stock as of August 26, 2015 was 900,000 shares.

LIBERTY TAX, INC.

Form 10-Q for the Period Ended July 31, 2015

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PART I

ITEM 1
FINANCIAL STATEMENTS

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LIBERTY TAX, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
July 31, 2015, April 30, 2015 and July 31, 2014
(In thousands, except share data)

Assets	July 31, 2015 (unaudited)	April 30, 2015	July 31, 2014 (unaudited)
Current assets:			
Cash and cash equivalents	$4,418	$21,387	$8,649
Receivables:			
Accounts receivable	33,460	46,121	30,737
Notes receivable - current	35,214	24,465	32,861
Interest receivable, net of uncollectible amounts	1,934	1,033	1,394
Allowance for doubtful accounts - current	(6,208)	(5,692)	(5,684)
Total current receivables, net	64,400	65,927	59,308
Assets held for sale	6,357	5,160	5,425
Income taxes receivable	7,901	—	10,946
Deferred income tax asset	6,773	6,921	3,636
Other current assets	2,552	6,470	3,058
Total current assets	92,401	105,865	91,022
Property, equipment, and software, net of accumulated depreciation of $17,665, $18,951 and $23,763, respectively	37,937	36,232	38,866
Notes receivable, non-current	23,079	22,416	16,996
Allowance for doubtful accounts, non-current	(1,933)	(1,663)	(1,421)
Total notes receivables, non-current, net	21,146	20,753	15,575
Goodwill	3,283	3,377	3,009
Other intangible assets, net	13,339	14,672	12,786
Other assets	3,220	3,247	2,207
Total assets	$171,326	$184,146	$163,465
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term debt	$1,958	$3,934	$3,042
Accounts payable and accrued expenses	16,819	17,321	8,963
Due to area developers ("ADs")	9,403	24,340	9,207
Income taxes payable	187	2,147	—
Deferred revenue - current	5,585	6,076	6,796
Total current liabilities	33,952	53,818	28,008
Long-term debt, excluding current installments	20,858	21,463	21,103
Revolving credit facility	16,556	—	13,822
Deferred revenue - non-current	8,964	7,640	8,097
Deferred income tax liability	3,673	2,363	4,657
Total liabilities	84,003	85,284	75,687
Commitments and contingencies			
Stockholders' equity:			
Special voting preferred stock, $0.01 par value per share, 10 shares authorized, issued and outstanding	—	—	—
Class A common stock, $0.01 par value per share, 21,200,000 shares authorized, 11,876,581, 11,905,156 and 11,812,069 shares issued and outstanding, respectively	119	119	118
	9	9	9

Class B common stock, $0.01 par value per share, 1,000,000 shares authorized, 900,000 shares issued and outstanding			
Exchangeable shares, $0.01 par value, 1,000,000 shares issued and outstanding	10	10	10
Additional paid-in capital	4,049	4,082	6,590
Accumulated other comprehensive income (loss), net of taxes	(1,455)	(697)	184
Retained earnings	84,591	95,339	80,867
Total stockholders' equity	87,323	98,862	87,778
Total liabilities and stockholders' equity	$171,326	$184,146	$163,465

See accompanying notes to condensed consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Three Months Ended July 31, 2015 and 2014 (unaudited)
(In thousands, except per share data)

	Three Months Ended July 31,	
	2015	2014
Revenue:		
Franchise fees	$608	$704
AD fees	1,604	1,825
Royalties and advertising fees	1,745	1,694
Financial products	308	457
Interest income	2,006	2,194
Tax preparation fees, net of discounts	623	515
Other revenue	629	450
Total revenue	7,523	7,839
Operating expenses:		
Employee compensation and benefits	8,633	8,415
Selling, general, and administrative expenses	7,759	7,525
AD expense	726	741
Advertising expense	2,609	2,882
Depreciation, amortization, and impairment charges	1,670	2,299
Total operating expenses	21,397	21,862
Loss from operations	(13,874)	(14,023)
Other expense:		
Foreign currency transaction loss	(25)	(1)
Interest expense	(401)	(301)
Loss before income taxes	(14,300)	(14,325)
Income tax benefit	(5,764)	(5,681)
Net loss	$(8,536)	$(8,644)
Net loss per share of Class A and Class B common stock:		
Basic and diluted	$(0.67)	$(0.67)
Weighted-average shares outstanding basic and diluted	12,811,621	12,867,273
Dividends declared per share of common stock and common stock equivalents	$0.16	$—

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
Three Months Ended July 31, 2015 and 2014 (unaudited)
(In thousands)

	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014
Net loss	$(8,536)	$(8,644)
Foreign currency translation adjustment	(758)	118
Comprehensive loss	$(9,294)	$(8,526)

See accompanying notes to condensed consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Three months ended July 31, 2015 and 2014 (unaudited)
(In thousands)

	2015	2014
Cash flows from operating activities:		
Net loss	$(8,536)	$(8,644)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	1,701	1,456
Depreciation, amortization, and impairment charges	1,670	2,299
Stock-based compensation expense	465	687
Gain on bargain purchases and sales of Company-owned offices	(117)	(95)
Deferred tax expense	1,458	2,034
Changes in accrued income taxes	(9,860)	(20,622)
Changes in other assets and liabilities	(2,241)	142
Net cash used in operating activities	(15,460)	(22,743)
Cash flows from investing activities:		
Issuance of operating loans to franchisees	(12,333)	(8,505)
Payments received on operating loans to franchisees	654	1,325
Purchases of AD rights and Company-owned offices	(336)	(128)
Proceeds from sale of Company-owned offices and AD rights	2,239	643
Purchases of property, equipment and software	(2,686)	(2,814)
Net cash used in investing activities	(12,462)	(9,479)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	279	4,543
Repurchase of common stock	(1,272)	(22,620)
Dividends paid	(2,212)	—
Repayment of amounts due to former ADs	(2,318)	(3,840)
Repayment of other long-term debt	(282)	(641)
Borrowings under revolving credit facility	16,556	13,849
Repayments under revolving credit facility	—	(27)
Tax benefit of stock option exercises	495	3,509
Net cash provided by (used in) financing activities	11,246	(5,227)
Effect of exchange rate changes on cash, net	(293)	18
Net decrease in cash and cash equivalents	(16,969)	(37,431)
Cash and cash equivalents at beginning of period	21,387	46,080
Cash and cash equivalents at end of period	$4,418	$8,649

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Three months ended July 31, 2015 and 2014 (unaudited)
(In thousands)

	2015	2014
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest of $66 and $40, respectively	$251	$231
Cash paid for taxes, net of refunds	2,144	9,398
Accrued capitalized software costs included in accounts payable	281	267
During the three months ended July 31, 2015 and 2014, the Company acquired certain assets from franchisees and ADs as follows:		
Fair value of assets purchased	$2,134	$1,968
Receivables applied, net of amounts due ADs and related deferred revenue	(1,731)	(1,714)
Bargain purchase gains	(24)	(9)
Notes and accounts payable issued	(43)	(117)
Cash paid to franchisees and ADs	$336	$128
During the three months ended July 31, 2015 and 2014, the Company sold certain assets to franchisees and ADs as follows:		
Book value of assets sold	$1,683	$1,773
Gain on sale-revenue deferred	1,679	314
Loss on sale - loss recognized	(28)	—
Notes received	(1,095)	(1,444)
Cash received from franchisees and ADs	$2,239	$643

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

July 31, 2015 and 2014 (Unaudited)

(1) Organization and Significant Accounting Policies

Description of Business

Liberty Tax, Inc. (the "Company"), a Delaware corporation, is a holding company engaged through its subsidiaries as a franchisor and, to a lesser degree, an operator of a system of income tax preparation offices located in the United States and Canada. The Company's principal operations are conducted through JTH Tax, Inc. (d/b/a Liberty Tax Service), the Company's largest subsidiary. Through this system of income tax preparation offices, the Company also facilitates refund-based tax settlement financial products, such as refund transfer products in the United States and personal income tax refund discounting in Canada. The Company also offers online tax preparation services. Effective July 15, 2014, the Company changed its name from JTH Holding, Inc. to Liberty Tax, Inc.

The Company provides a substantial amount of lending to its franchisees and ADs. The Company allows franchisees and ADs to defer a portion of the franchise fee and AD fee, which are paid over time. The Company also offers its franchisees working capital loans to fund their operations between tax seasons.

The Company's operating revenues are seasonal in nature, with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

Unless the context requires otherwise, the terms "Liberty Tax," "Liberty Tax Service," "we," "the Company," "us," and "our" refer to Liberty Tax, Inc. and its consolidated subsidiaries.

Basis of Presentation

The condensed consolidated financial statements include the accounts of Liberty Tax, Inc. and its wholly-owned subsidiaries. Assets and liabilities of the Company's Canadian operations have been translated into U.S. dollars using the exchange rate in effect at the end of the period. Revenues and expenses have been translated using the average exchange rates in effect each month of the period. Foreign exchange transaction gains and losses are recognized when incurred. The Company consolidates any entities in which it has a controlling interest, the usual condition of which is ownership of a majority voting interest. The Company also considers for consolidation an entity in which the Company has certain interests where a controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The Company does not possess any ownership interests in franchisee entities; however, the Company may provide financial support to franchisee entities. Because the Company's franchise arrangements provide franchisee entities the power to direct the activities that most significantly impact their economic performance, the Company does not consider itself the primary beneficiary of any such entity that might be a VIE. Based on the results of management's analysis of potential VIEs, the Company has not consolidated any franchisee entities. The Company's maximum exposure to loss resulting from involvement with potential VIEs is attributable to accounts and notes receivables and future lease payments due from franchisees. When the Company does not have a controlling interest in an entity but exerts significant influence over the entity, the Company applies the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures only required in annual financial statements. Consolidated balance sheet data as of April 30, 2015 was derived from the Company’s April 30, 2015 Annual Report on Form 10-K filed on July 1, 2015.

In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying consolidated financial statements should be read in conjunction with the Company’s financial statements and notes thereto included in its April 30, 2015 Annual Report on Form 10-K filed on July 1, 2015.

Office Count

The Company will report this information for the quarter ended January 31, 2016 once all offices have been opened.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these condensed consolidated financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates.

Accounting Pronouncements

There have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2015 as filed on July 1, 2015.

Foreign Operations

Canadian operations contributed $1.0 million and $0.8 million in revenues for the three months ended July 31, 2015 and 2014, respectively.

(2) Accounts and Notes Receivable

The Company provides financing to franchisees and ADs for the purchase of franchises, areas, Company-owned offices, and operating loans for working capital and equipment needs. The franchise-related notes generally are payable over five years and the operating loans generally are due within one year. Most notes bear interest at 12%.

Notes and interest receivable, net of unrecognized revenue, as of July 31, 2015, April 30, 2015 and July 31, 2014 are presented in the consolidated balance sheets as follows:

	July 31, 2015	April 30, 2015	July 31, 2014
	(In thousands)		
Notes receivable - current	$35,214	$24,465	$32,861
Notes receivable - non-current	23,079	22,416	16,996
Interest, net of uncollectible amounts	1,934	1,033	1,394
Total notes and interest receivable, net	$60,227	$47,914	$51,251

Most of the notes receivable are due from the Company's franchisees and ADs and are collateralized by the underlying franchise and, when the franchise or AD is an entity, are guaranteed by the owners of the respective entity. The debtors' ability to repay the notes is dependent upon both the performance of the tax preparation industry as a whole and the individual franchisees' or ADs' areas.

Accounts and notes receivable include royalties billed that relate to territories operated by franchisees located in AD territories and a portion of those accounts and notes are payable to the AD. The Company has recorded amounts payable to ADs for their share of these receivables of $9.4 million, $24.3 million, and $9.2 million at July 31, 2015, April 30, 2015 and July 31, 2014, respectively.

Unrecognized revenue relates to the financed portion of franchise fees and AD fees and, in the case of sales of Company-owned offices, the financed portion of gains related to these sales in each case where revenue has not yet been recognized. For franchise fees and gains related to the sale of Company-owned offices, revenue is recognized as note payments are received by the Company. Payments received on AD fee notes receivable generate a corresponding increase in deferred revenue, which is amortized into revenue over the life of the AD contract, historically ten years. The Company recently changed the term of new and renewal AD contracts to six years from ten years and the revenue for these contracts will be

recognized over that period, subject to the receipt of cash. Unrecognized revenue was $38.7 million, $38.6 million and $39.1 million at July 31, 2015, April 30, 2015 and July 31, 2014, respectively.
At July 31, 2015, the Company had unfunded lending commitments for working capital loans to franchisees and area developers of $23.7 million.

Allowance for Doubtful Accounts
The adequacy of the allowance for doubtful accounts is assessed on a quarterly basis and adjusted as deemed necessary. Management believes the recorded allowance is adequate based upon its consideration of the estimated value of the franchises and AD areas supporting the receivables. Any adverse change in the tax preparation industry or the individual franchisees' or ADs' areas could affect the Company's estimate of the allowance.
Activity in the allowance for doubtful accounts for the three months ended July 31, 2015 and 2014 was as follows:

	Three Months Ended	
	2015	2014
	(In thousands)	
Balance at beginning of period	$7,355	$6,850
Provision for doubtful accounts	1,701	1,456
Write-offs	(829)	(1,212)
Foreign currency adjustment	(86)	11
Balance at end of period	$8,141	$7,105

Management considers specific accounts and notes receivable to be impaired if the net amounts due exceed the fair value of the underlying franchise at the time of the annual valuation performed as of April 30 of each year, and estimates an allowance for doubtful accounts based on that excess. While not specifically identifiable as of the balance sheet date, the Company's experience also indicates that a portion of other accounts and notes receivable are also impaired, because management does not expect to collect all principal and interest due under the current contractual terms. Net amounts due include contractually obligated accounts and notes receivable plus accrued interest, reduced by unrecognized revenue, the allowance for uncollected interest, amounts due ADs, and amounts owed to the franchisee by the Company. In establishing the fair value of the underlying franchise, management considers recent sales between franchisees, net fees of open offices earned during the most recently completed tax season, and the number of unopened offices.

The allowance for doubtful accounts at July 31, 2015, April 30, 2015 and July 31, 2014, was allocated as follows:

	July 31, 2015	April 30, 2015	July 31, 2014
	(In thousands)		
Impaired:			
Notes and interest receivable, net of unrecognized revenue	$10,633	$10,921	$7,064
Accounts receivable	6,699	7,634	4,578
Less amounts due to ADs and franchisees	(1,304)	(1,535)	(819)
Amounts receivable less amounts due to ADs and franchisees	$16,028	$17,020	$10,823
Allowance for doubtful accounts for impaired notes and accounts receivable	$6,616	$6,594	$5,425
Non-impaired:			
Notes and interest receivable,net of unrecognized revenue	$49,594	$36,993	$44,187
Accounts receivable	26,761	38,487	26,159
Less amounts due to ADs and franchisees	(8,795)	(25,150)	(9,244)
Amounts receivable less amounts due to ADs and franchisees	$67,560	$50,330	$61,102
Allowance for doubtful accounts for non-impaired notes and accounts receivable	$1,525	$761	$1,680
Total:			
Notes and interest receivable, net of unrecognized revenue	$60,227	$47,914	$51,251
Accounts receivable	33,460	46,121	30,737
Less amounts due to ADs and franchisees	(10,099)	(26,685)	(10,063)
Amounts receivable less amounts due to ADs and franchisees	$83,588	$67,350	$71,925
Total allowance for doubtful accounts	$8,141	$7,355	$7,105

The Company’s average investment in impaired notes receivable during the three months ended July 31, 2015 and 2014 was $10.8 million and $7.8 million, respectively.

Analysis of Past Due Receivables

The breakdown of accounts and notes receivable past due at July 31, 2015 was as follows:

	Past due	Allowance for uncollectible interest	Current	Total receivables
	(In thousands)			
Accounts receivable	$32,315	$ (1,134)	$2,279	$33,460
Notes and interest receivable, net of unrecognized revenue	9,713	(1,242)	51,756	60,227
Total accounts, notes and interest receivable	$42,028	$ (2,376)	$54,035	$93,687

Accounts receivable are considered to be past due if unpaid 30 days after billing and notes receivable are considered past due if unpaid after 90 days after the due date, at which time the notes are put on nonaccrual status. The Company’s investment in notes receivable on nonaccrual status was $8.5 million, $9.3 million,and $8.4 million at July 31, 2015, April 30, 2015, and July 31, 2014, respectively. Payments received on notes in nonaccrual status are applied to interest income first until the note is current and then to the principal note balance. Nonaccrual notes that are paid current and expected to remain current are moved back into accrual status during the next annual review.

(3) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the three months ended July 31, 2015 and 2014 were as follows:

	July 31, 2015	July 31, 2014
	(In thousands)	
Balance at beginning of period	$3,377	$2,997
Acquisitions of assets from franchisees	—	—
Disposals and foreign currency changes, net	(94)	12
Impairments	—	—
Balance at end of period	$3,283	$3,009

Components of intangible assets were as follows as of July 31, 2015, April 30, 2015 and July 31, 2014:

	July 31, 2015 Weighted average amortization period (In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	4 years	$1,027	$ (85)	$942
Assets acquired from franchisees:				
Customer lists	4 years	707	(513)	194
Reacquired rights	2 years	518	(438)	80
AD rights	10 years	16,505	(4,382)	12,123
Total intangible assets		$18,757	$ (5,418)	$13,339

	April 30, 2015 Weighted average amortization period (In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	4 years	$1,027	$ —	$1,027
Assets acquired from franchisees:				
Customer lists	4 years	759	(441)	318
Reacquired rights	2 years	559	(473)	86
AD rights	10 years	17,345	(4,104)	13,241
Total intangible assets		$19,690	$ (5,018)	$14,672

	July 31, 2014 Weighted average amortization period (In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	6 years	$4,816	$ (1,356)	$3,460
Assets acquired from franchisees:				
Customer lists	4 years	677	(442)	235
Reacquired rights	2 years	601	(392)	209
AD rights	10 years	12,419	(3,537)	8,882
Total intangible assets		$18,513	$ (5,727)	$12,786

During the three months ended July 31, 2015, the Company acquired the assets of various Canadian franchisees for $10 thousand. During the three months ended July 31, 2014, the Company acquired the assets of U.S. and Canadian franchisees for $235 thousand. These acquisitions were accounted for as business combinations, with all value allocated to intangible assets. The purchase price of assets acquired from franchisees during the three months ended July 31, 2015 and 2014 was allocated as follows:

	Three Months Ended July 31,	
	2015	2014
	(In thousands)	
Customer lists and reacquired rights	$10	$235
Goodwill	—	—
Total	$10	$235

(4) Assets Held For Sale

At the end of the first quarter of fiscal 2016 and 2015, assets acquired from U.S. franchisees were classified as assets held for sale. During the three months ended July 31, 2015 the Company acquired $2.0 million in assets from U.S. franchisees that were first accounted for as business combinations, with the value allocated to customer lists and reacquired rights of $0.9 million and goodwill of $1.1 million prior to being recorded as assets held for sale. During the three months ended July 31, 2014, the Company acquired $1.7 million in assets from U.S. franchisees and third parties that were first accounted for as business combinations, with the value allocated to customer lists and reacquired rights of $0.9 million and goodwill of $0.8 million prior to being recorded as assets held for sale. The acquired businesses are operated as Company-owned offices until a buyer is located and a new franchise agreement is entered into.

Changes in the carrying amount of assets held for sale for the three months ended July 31, 2015 and 2014 were as follows:

	Three Months Ended July 31,	
	2015	2014
	(In thousands)	
Balance at beginning of period	$5,160	$4,413
Reacquired	2,001	1,682
Dispositions	(804)	(670)
Balance at end of period	$6,357	$5,425

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(5) Debt

In October 2014, the Company amended its credit facility. The amended credit facility consists of a $21.2 million term loan and a revolving credit facility that currently allows borrowing of up to $203.8 million with an accordion feature that permits the Company to request an increase in availability of up to an additional $50.0 million. Outstanding borrowings accrue interest which is paid monthly at a rate of the one-month London Interbank Offered Rate ("LIBOR") plus a margin ranging from 1.50% to 2.25% depending on the Company's leverage ratio. At July 31, 2015 and 2014, the interest rate was 1.81% and 1.78%, respectively and the average interest rate paid during the three months ended July 31, 2015 and 2014 was 1.81% and 1.78%, respectively. The indebtedness is collateralized by substantially all the assets of the Company and both loans mature on April 30, 2019 (except as to the commitments of one lender under the revolving credit facility, which mature on September 30, 2017). The credit facility contains certain financial covenants that the Company must meet, including leverage and fixed-charge coverage ratios as well as minimum net worth requirements. In addition, the Company must reduce the outstanding balance under its revolving loan to zero for a period of at least 45 consecutive days each fiscal year. The Company was in compliance with the financial covenants at July 31, 2015.

Debt at July 31, 2015, April 30, 2015, and July 31, 2014 consisted of the following:

	July 31, 2015	April 30, 2015	July 31, 2014
	(In thousands)		
Credit Facility:			
Revolver	$16,556	$—	$13,822
Term loan	20,187	20,453	21,250
	36,743	20,453	35,072
Amounts due to former ADs and mortgages	2,629	4,944	2,895
	39,372	25,397	37,967
Less: current portion	(1,958)	(3,934)	(3,042)
Long-term debt	$37,414	$21,463	$34,925

(6) Income Taxes

The Company computes its provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and adding the effects of any discrete income tax items specific to the period.

(7) Stockholders' Equity

Stockholders' Equity Activity

During the three months ended July 31, 2015 and 2014, activity in stockholders' equity was as follows:

	Three Months Ended July 31,	
	2015	2014
	(in thousands, except for share amounts)	
Class A common shares issued from the exercise of stock options	17,710	283,115
Class A common shares issued from the vesting of restricted stock and as Board of Directors compensation	5,324	—
Proceeds from exercise of stock options	$279	$4,543
Stock-based compensation expense	$465	$687
Class A common shares repurchased	51,609	881,172
Payments for repurchased shares	$1,272	$22,620
Tax benefit of stock option exercises	$495	$3,509

Dividends paid	$2,212	$—

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Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss) consists of foreign currency adjustments of $(1.5) million, $(0.7) million and $0.2 million at July 31, 2015, April 30, 2015 and July 31, 2014, respectively.

Net Income (Loss) per Share

Net income (loss) per share of Class A and Class B common stock is computed using the two-class method. Basic net income (loss) per share is computed by allocating undistributed earnings to common shares and participating securities (exchangeable shares) and using the weighted-average number of common shares outstanding during the period. Undistributed losses are not allocated to participating securities because they do not meet the required criteria for such allocation.

Diluted net income (loss) per share is computed using the weighted-average number of common shares and, if dilutive, the potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and vesting of restricted stock units. The dilutive effect of outstanding stock options and restricted stock units is reflected in diluted earnings per share by application of the treasury stock method. Additionally, the computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock and exchangeable shares, if dilutive, while the diluted net loss per share of Class B common stock does not assume conversion of those shares.

The rights, including liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, with the exception of the election of directors. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common stock as if the earnings for the year had been distributed. Participating securities have dividend rights that are identical to Class A and Class B common stock.
The computation of basic and diluted net loss per share for the three months ended July 31, 2015 and 2014 is as follows:

	Three Months Ended July 31, 2015	
	Class A Common Stock	Class B Common Stock
	(in thousands, except for share and per share amounts)	
Basic and diluted net loss per share:		
Numerator		
Allocation of undistributed losses	$(7,936)	$(600)
Denominator		
Weighted-average common shares outstanding	11,911,621	900,000
Basic and diluted net loss per share	$(0.67)	$(0.67)

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	Three Months Ended July 31, 2014	
	Class A Common Stock	Class B Common Stock
	(in thousands, except for share and per share amounts)	
Basic and diluted net loss per share:		
Numerator		
Allocation of undistributed losses	$(8,039)	$(605)
Denominator		
Weighted-average common shares outstanding	11,967,273	900,000
Basic and diluted net loss per share	$(0.67)	$(0.67)

As a result of the net losses for the periods, diluted net loss per share excludes the impact of shares of potential common stock from the exercise of options to purchase 983,768 and 1,238,655 shares for the three months ended July 31, 2015 and 2014, respectively, because the effect would be antidilutive.

(8) Stock Compensation Plans

Stock Options

In August 2011, the Board of Directors approved an equity and cash incentive plan. Employees and outside directors are eligible to receive awards and a total of 2,500,000 shares of Class A common stock were authorized for grant under the plan. At July 31, 2015, 1,584,129 shares of Class A common stock remain available for grant. There were no options granted during the three months ended July 31, 2015.
Stock option activity during the three months ended July 31, 2015 was as follows:

	Number of options	Weighted average exercise price
Balance at beginning of period	1,343,559	$19.28
Granted	—	—
Exercised	(17,710)	15.73
Expired or forfeited	(123,490)	22.61
Balance at end of period	1,202,359	18.99

Intrinsic value is defined as the market value of the stock less the cost to exercise. The total intrinsic value of options exercised during the three months ended July 31, 2015 was $0.1 million. The total intrinsic value of stock options outstanding at July 31, 2015 was $9.5 million. Stock options vest from six months to five years from the date of grant and expire from four to five years after the vesting date.
Nonvested stock options (options that had not vested in the period reported) activity during the three months ended July 31, 2015 was as follows:

	Nonvested options	Weighted average exercise price
Balance at beginning of period	385,416	$27.56
Granted	—	—
Vested	(25,000)	33.79
Forfeited	(50,000)	33.79

Balance at end of period	310,416	26.06

At July 31, 2015, unrecognized compensation costs related to nonvested stock options were $2.0 million. These costs are expected to be recognized through fiscal 2021.

The following table summarizes information about stock options outstanding and exercisable at July 31, 2015:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of shares outstanding	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options exercisable	Weighted average exercise price
$10.50	$12,500	$10.50	0.7	12,500	$10.50
15.00	621,207	15.00	2.2	621,207	15.00
16.38 - 19.75	273,236	17.91	4.3	198,236	17.85
26.18 - 29.48	205,000	26.66	6.4	35,000	26.18
33.38 - 33.79	90,416	33.49	6.3	25,000	33.79
	1,202,359	18.99		891,943	16.54

Restricted Stock Units

There were no restricted stock units granted during the three months ended July 31, 2015. Restricted stock activity during the three months ended July 31, 2015 was as follows:

	Number of RSUs	Weighted average fair value at grant date
Balance at beginning of period	28,929	$30.63
Granted	—	—
Vested	(4,678)	17.95
Forfeited	(1,883)	29.51
Balance at end of period	22,368	33.38

At July 31, 2015, unrecognized compensation costs related to restricted stock units were $0.5 million. These costs are expected to be recognized through fiscal 2022.

(9) Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities subject to fair value measurements on a recurring basis are classified according to a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Valuation methodologies for the fair value hierarchy are as follows:

- Level 1 — Quoted prices for identical assets and liabilities in active markets.
- Level 2 — Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.
- Level 3 — Unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The Company measures or monitors certain of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for those assets and liabilities for which fair value is the primary basis of accounting. Other assets and liabilities are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. The following tables present, at July 31, 2015, April 30, 2015 and July 31, 2014, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis (in thousands):

	July 31, 2015			
		Fair value measurements using		
	Total	Level 1	Level 2	Level 3
Assets:				
Nonrecurring:				
Impaired accounts and notes receivable	$13,728	$—	$—	$13,728
Total recurring and nonrecurring assets	$13,728	$—	$—	$13,728

	April 30, 2015			
		Fair value measurements using		
	Total	Level 1	Level 2	Level 3
Assets:				
Recurring:				
Cash equivalents	$16,975	$16,975	$—	$—
Nonrecurring:				
Impaired accounts and notes receivable	11,961	—	—	11,961
Impaired online software	1,253	—	—	1,253
Impaired acquired online customer lists	1,027	—	—	1,027
Impaired goodwill	224	—	—	224
Impaired reacquired rights	79	—	—	79
Impaired customer lists	126	—	—	126
Assets held for sale	5,160	—	—	5,160
Total nonrecurring assets	19,830	—	—	19,830
Total recurring and nonrecurring assets	$36,805	$16,975	$—	$19,830

	July 31, 2014			
		Fair value measurements using		
	Total	Level 1	Level 2	Level 3
Assets:				
Nonrecurring:				
Impaired accounts and notes receivable	$6,217	$—	$—	$6,217
Total recurring and nonrecurring assets	$6,217	$—	$—	$6,217

The Company’s policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of level 1 or 2 requiring fair value measurements for each of the three months ended July 31, 2015 and 2014.

The following methods and assumptions are used to estimate the fair value of our financial instruments.

Cash equivalents: The carrying amounts approximate fair value because of the short maturity of these instruments. Cash equivalent financial instruments consist of money market accounts.

Impaired accounts and notes receivable: Accounts and notes receivable are considered to be impaired if the net amounts due exceed the fair value of the underlying franchise or if management considers it proba